

Monday, September 03, 2018 | special comment

## Comarch – 2018 Q2 Earnings Conference Highlights

Rating: buy | target price: PLN 166.50 | current price: PLN 156.00

**CMR PW; CMR.WA | TMT, Poland**

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**Comarch reported strong financials for Q2 2018, with the gross profit at double the year-ago level even after adjustment for a one-time PLN 5m land sale and above-average margins generated on sales of finished products. Comarch's Management have an upbeat outlook for the rest of the year, and we maintain a bullish view as well, with the Company right on track to achieving our FY EBITDA forecast of PLN 144m.**

- Comarch's 2018 profits received a boost from partial revenue from a major government contract, returning a sizable sales margin, however even with this contract factored out the core sales profit for the period showed substantial improvement relative to previous periods.
- Sales in Poland rebounded in Q2, and they are expected to continue growing in the second half of the year.
- Comarch recognized one-time costs of a combined PLN 10m in Q2 related to the sale of an MKS Cracovia footballer and overdue receivables from a South-European customer.
- The sale of a land lot in Krakow produced a one-time gain of PLN 4.7m booked under "Investment."
- Comarch registered a large negative change in receivables in Q2 related to a contract for a courtroom recording systems rollout, but it expects the payments to come in in Q3 and Q4 2018.
- The high Q2 financing costs were an effect largely of volatile movements in the Argentinean and Turkish currencies versus the zloty.

## List of abbreviations and ratios contained in the report.

**EV** – net debt + market value (EV – economic value)  
**EBIT** – Earnings Before Interest and Taxes  
**EBITDA** – EBIT + Depreciation and Amortisation  
**PBA** – Profit on Banking Activity  
**P/CE** – price to earnings with amortisation  
**MC/S** – market capitalisation to sales  
**EBIT/EV** – operating profit to economic value  
**P/E** – (Price/Earnings) – price divided by annual net profit per share  
**ROE** – (Return on Equity) – annual net profit divided by average equity  
**P/BV** – (Price/Book Value) – price divided by book value per share  
**Net debt** – credits + debt papers + interest bearing loans – cash and cash equivalents  
**EBITDA margin** – EBITDA/Sales

**OVERWEIGHT (OW)** – a rating which indicates that we expect a stock to outperform the broad market  
**NEUTRAL (N)** – a rating which indicates that we expect the stock to perform in line with the broad market  
**UNDERWEIGHT (UW)** – a rating which indicates that we expect the stock to underperform the broad market

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**Economic profits** – discounting of future economic profits; the weak point is high sensitivity to changes in the assumptions made in the valuation model.

**Discounted Dividends (DDM)** – discounting of future dividends; the weak point is high sensitivity to changes in the assumptions as to future dividends made in the valuation model.

**NAV** – valuation based on equity value, one of the most frequently used method in case of developing companies; the weak point of the method is that it does not factor in future changes in revenue/profits of a company.

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